

**TROUBADOUR RESOURCES INC.**

**FINANCIAL STATEMENTS**  
**(Expressed in Canadian Dollars)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2018**

**TROUBADOUR RESOURCES INC.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
(Unaudited)  
(Expressed in Canadian Dollars)  
**AS AT**

|   | June 30,<br>2018    | December 31,<br>2017 |
|---|---------------------|----------------------|
| <b>ASSETS</b>                               |                     |                      |
| <b>Current</b>                              |                     |                      |
| Cash  | \$ 698,902          | \$ 736,278           |
| Receivables                                 | 13,618              | 4,927                |
| Prepaid expenses                            | <u>-</u>            | <u>3,498</u>         |
|   | 712,520             | 744,703              |
| Reclamation deposit (Note 3)                | 7,500               | 7,500                |
| Mineral property (Note 3)                   | <u>446,317</u>      | <u>191,026</u>       |
|   | <u>\$ 1,166,337</u> | <u>\$ 943,229</u>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |                     |                      |
| <b>Current</b>                              |                     |                      |
| Accounts payable and accrued liabilities    | <u>\$ 188,701</u>   | <u>\$ 71,964</u>     |
| <b>Shareholders' equity</b>                 |                     |                      |
| Share capital (Note 5)                      | 1,403,895           | 1,226,467            |
| Reserves (Note 5)                           | 22,600              | 19,430               |
| Subscriptions receivable (Note 5)           | -                   | (10,000)             |
| Subscriptions received in advance           | -                   | 30,068               |
| Deficit                                     | <u>(448,859)</u>    | <u>(394,700)</u>     |
|   | <u>977,636</u>      | <u>871,265</u>       |
|   | <u>\$ 1,166,337</u> | <u>\$ 943,229</u>    |

**Nature and continuance of operations** (Note 1)

Approved and authorized by the Board on August 28, 2018.

|                            |          |                             |          |
|----------------------------|----------|-----------------------------|----------|
| <u>"Gary Schellenberg"</u> | Director | <u>"Geoff Schellenberg"</u> | Director |
| Gary Schellenberg          |          | Geoff Schellenberg          |          |

The accompanying notes are an integral part of these financial statements.

**TROUBADOUR RESOURCES INC.**  
**CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
(Unaudited)  
(Expressed in Canadian Dollars)  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30**

|   | For the three<br>months ended<br>June 30, 2018 | For the three<br>months ended<br>June 30, 2017 | For the six<br>months ended<br>June 30, 2018 | For the six<br>months ended<br>June 30, 2017 |
|---|--|--|--|--|
| <b>Expenses</b>   |  |  |  |  |
| Investor Relations  | \$ 5,574                                       | \$ -   | \$ 9,072                                     | \$ -   |
| Filing and transfer agent fees                                  | 15,956   | -  | 16,306                                       | -  |
| Interest and bank charges                                       | 71   | 45   | 125  | 93   |
| Office and administration                                       | 1,918  | -  | 2,086  | -  |
| Professional Fees   | 6,245  | 29,539   | 28,524                                       | 29,673                                       |
| <b>Loss before other items</b>                                  | <b>(29,764)</b>                                | <b>(29,584)</b>                                | <b>(56,113)</b>                              | <b>(29,766)</b>                              |
| <b>Other items</b>  |  |  |  |  |
| Interest income   | 1,574  | -  | 1,954  | -  |
| <b>Loss and comprehensive loss for the period</b>               | <b>\$ (28,190)</b>                             | <b>\$ (29,584)</b>                             | <b>\$ (54,159)</b>                           | <b>\$ (29,766)</b>                           |
| <b>Basic and diluted loss per common share</b>                  | <b>\$ (0.00)</b>                               | <b>\$ (0.01)</b>                               | <b>\$ (0.00)</b>                             | <b>\$ (0.01)</b>                             |
| <b>Weighted average number of<br/>common shares outstanding</b> | <b>16,225,045</b>                              | <b>5,887,500</b>                               | <b>15,996,947</b>                            | <b>5,887,500</b>                             |

The accompanying notes are an integral part of these financial statements.

**TROUBADOUR RESOURCES INC.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(Expressed in Canadian Dollars)  
FOR THE SIX MONTHS ENDED JUNE 30

|   | 2018              | 2017             |
|---|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b> |                   |                  |
| Loss for the period                         | \$ (54,159)       | \$ (29,766)      |
| Non-cash working capital item changes:      |                   |                  |
| Receivables                                 | (8,691)           | 14,598           |
| Prepaid expenses                            | 3,498             | -                |
| Accounts payable and accrued liabilities    | 10,869            | (4,016)          |
| Net cash used in operating activities       | (48,483)          | (19,184)         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b> |                   |                  |
| Mineral property expenditures               | (99,423)          | (90,242)         |
| Net cash used in investing activities       | (99,423)          | (90,242)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b> |                   |                  |
| Proceeds from issuance of shares            | 117,880           | -                |
| Share issuance costs                        | (7,350)           | -                |
| Net cash provided by financing activities   | 110,530           | -                |
| <b>Change in cash for the period</b>        | <b>(37,376)</b>   | <b>(109,426)</b> |
| <b>Cash, beginning of period</b>            | <b>736,278</b>    | <b>136,859</b>   |
| <b>Cash, end of period</b>                  | <b>\$ 698,902</b> | <b>\$ 27,433</b> |

No cash was paid for interest or taxes for the periods ended June 30, 2018 and 2017.

During the period ended June 30, 2018, the Company accrued \$157,619 in mineral property costs through accounts payable and accrued liabilities (December 31, 2017 - \$51,751), recognized \$3,170 in non-cash share issuance costs related to the fair value finder's warrants granted (December 31, 2017 - \$nil), and issued 500,000 common shares valued at \$50,000 as option payments on its mineral property (December 31, 2017 - \$nil).

The accompanying notes are an integral part of these financial statements.

**TROUBADOUR RESOURCES INC.**  
**CONDENSED INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
(Unaudited)  
(Expressed in Canadian Dollars)

|                                      | <u>Share Capital</u> |              | Reserves  | Subscriptions<br>receivable | Subscriptions<br>received in<br>advance | Deficit      | Total      |
|--------------------------------------|----------------------|--------------|-----------|-----------------------------|---|--------------|------------|
|                                      | Number               | Amount       |           |                             |   |              |            |
| <b>Balance, December 31, 2016</b>    | 5,887,500            | \$ 400,735   | \$ -      | \$ -                        | \$ -                                    | \$ (317,493) | \$ 83,242  |
| Loss for the period                  | -                    | -            | -         | -                           | -                                       | (29,766)     | (29,766)   |
| <b>Balance, June 30, 2017</b>        | 5,887,500            | 400,735      | -         | -                           | -                                       | (347,259)    | 53,476     |
| Shares issued for cash               | 6,653,120            | 665,312      | -         | (10,000)                    | -                                       | -            | 655,312    |
| Flow-through shares issued for cash  | 2,250,000            | 225,000      | -         | -                           | -                                       | -            | 225,000    |
| Share issuance costs – cash          | -                    | (45,150)     | -         | -                           | -                                       | -            | (45,150)   |
| Share issuance costs – warrants      | -                    | (19,430)     | 19,430    | -                           | -                                       | -            | -          |
| Subscriptions received in advance    | -                    | -            | -         | -                           | 30,068                                  | -            | 30,068     |
| Loss for the period                  | -                    | -            | -         | -                           | -                                       | (47,441)     | (47,441)   |
| <b>Balance, December 31, 2017</b>    | 14,790,620           | \$ 1,226,467 | \$ 19,430 | \$ (10,000)                 | \$ 30,068                               | \$ (394,700) | \$ 871,265 |
| Shares issued for cash               | 1,379,480            | 137,948      | -         | 10,000                      | (30,068)                                | -            | 117,880    |
| Share issuance costs – cash          | -                    | (7,350)      | -         | -                           | -                                       | -            | (7,350)    |
| Share issuance costs – warrants      | -                    | (3,170)      | 3,170     | -                           | -                                       | -            | -          |
| Shares issued for mineral properties | 500,000              | 50,000       | -         | -                           | -                                       | -            | 50,000     |
| Loss for the period                  | -                    | -            | -         | -                           | -                                       | (54,159)     | (54,159)   |
| <b>Balance, June 30, 2018</b>        | 16,670,100           | \$ 1,403,895 | \$ 22,600 | \$ -                        | \$ -                                    | \$ (448,859) | \$ 977,636 |

The accompanying notes are an integral part of these financial statements.

**TROUBADOUR RESOURCES INC.**  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
(Unaudited)  
(Expressed in Canadian Dollars)  
FOR THE PERIOD ENDED JUNE 30, 2018

---

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Troubadour Resources Inc. was incorporated in Canada under the British Columbia Corporations Act on March 22, 2012. The Company is principally engaged in the acquisition and exploration of resource properties. The Company's shares are publicly traded on the TSX Venture Exchange under the symbol TR. The head office, records office, and principal address of the Company is 488-625 Howe Street, Vancouver, British Columbia, V6C 2T6. The Company changed its name to Troubadour Resources Inc. (formerly Grandore Resources Inc.), on February 16, 2017.

The Company is in the process of investing in potential new acquisitions and exploring and evaluating its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. During the year ended December 31, 2016, the Company entered into an agreement to acquire an interest in a property in Osoyoos, British Columbia (Note 3).

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has incurred losses from inception and does not currently have the financial resources to sustain operations in the long-term. While the Company has been successful in obtaining its required funding in the past, there is no assurance that such future financing will be available or be available on favourable terms. An inability to raise additional financing may impact the future assessment of the Company as a going concern. These material uncertainties may cast significant doubt about the ability of the Company to continue as a going concern.

The condensed interim financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations. Continued operations of the Company are dependent on the Company's ability to receive financial support, necessary financings, or generate profitable operations in the future.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION**

**Statement of compliance**

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These condensed interim financial statements are prepared using accounting policies consistent with the Company's annual audited financial statements issued under International Financial Reporting Standards ("IFRS") for the year ended December 31, 2017 except for the adoption of IFRS 9 as discussed below.

The condensed interim financial statements have been prepared on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit and loss, which are stated at their value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

**Use of Estimates and Critical Judgments**

The recognition of exploration and evaluation assets requires judgments regarding future recoverability and carrying cost. The cost model is utilized and the value of the exploration and evaluation assets is based on the expenditures incurred. At every reporting period, management assesses the potential impairment which involves assessing whether or not facts or circumstances exist that suggest the carrying amount exceeds the recoverable amount.

The determination of income tax is inherently complex and requires making certain judgments about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

**TROUBADOUR RESOURCES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
(Expressed in Canadian Dollars)  
FOR THE PERIOD ENDED JUNE 30, 2018

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**

**New standards, interpretations and amendments adopted**

We have adopted the new IFRS pronouncement for financial instruments as at January 1, 2018, in accordance with the transitional provisions outlined in the respective standard and described below. The adoption of the new IFRS pronouncement has not resulted to adjustments in previously reported figures and no change to the opening deficit balance as at January 1, 2018, under the IFRS 9 transition provisions.

*Overview of Changes in IFRS 9*

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (IAS 39).

Under IFRS 9, on initial recognition, a financial asset or liability is classified at amortized cost or at fair value (either through other comprehensive income (“FVOCI”) or profit or loss (“FVPL”).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income (FVOCI).

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change relating to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

*Classification and Measurement Changes*

We have assessed the classification and measurement of our financial assets and financial liabilities under IFRS 9 and have summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

|  | Measurement Category |                |
|--|----------------------|----------------|
|  | Original (IAS 39)    | New (IFRS 9)   |
| <b>Financial Assets:</b>                 |                      |                |
| Cash and cash equivalents                | FVPL                 | FVPL           |
| Receivables                              | Amortized cost       | Amortized cost |
| Reclamation deposit                      | Amortized cost       | Amortized cost |
| <b>Financial Liabilities:</b>            |                      |                |
| Accounts payable and accrued liabilities | Amortized cost       | Amortized cost |

There has been no change in the measurement categories, carrying values or to previously reported figures of our financial instruments. The adoption of the Standard did not have a significant impact on the financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd...)**

**New standards, interpretations and amendments adopted (cont'd...)**

*Impairment of financial assets*

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment

The Company has determined that the application of IFRS 9's impairment requirements as at January 1, 2018 does not result in any additional impairment allowances.

**New standards not yet adopted**

Certain pronouncements were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2019. They have not been early adopted in these condensed interim financial statements. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation and disclosure of leases, including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases, as is required by IAS 17 Leases, and instead introduces a single lessee accounting model. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of adopting these amendments on its financial statements.

**3. MINERAL PROPERTY**

On October 27, 2016, the Company entered into a purchase and sale and royalty agreement with a third party to acquire a 100% interest in certain claims located in the Osoyoos Mining District, British Columbia, comprising the Amarillo property, for consideration of \$10,000 (paid) and the issuance of 500,000 common shares of the Company within 10 days of a Canadian listing. The Company issued 500,000 common shares valued at \$50,000 during the period ended June 30, 2018. The third party retains a 1.5% Net Smelter Returns royalty, of which the Company may purchase 1.0% for a payment of \$1,000,000.

During the year ended December 31, 2016, the Company also paid \$4,756 to stake mineral claims contiguous to the Amarillo property in order to increase its holdings. Subsequent to the period ended June 30, 2018, the Company staked an additional 896.95 hectares of land to increase the total size of the property to 4,178.21.



**TROUBADOUR RESOURCES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
(Expressed in Canadian Dollars)  
FOR THE PERIOD ENDED JUNE 30, 2018

**3. MINERAL PROPERTY (cont'd...)**

The Company has incurred the following in relation to mineral properties:

|                             | Six-Month<br>Ended<br>June 30, 2018 | Year Ended<br>December 31,<br>2017 |
|-----------------------------|-------------------------------------|------------------------------------|
| <i>Acquisition Costs</i>    |                                     |                                    |
| Opening Balance             | \$ 14,756                           | \$ 14,756                          |
| Additions                   | 50,000                              | -                                  |
| Closing Balance             | 64,756                              | 14,756                             |
| <i>Exploration Costs</i>    |                                     |                                    |
| Opening Balance             | 176,270                             | 99,316                             |
| Administrative Expenditures | 592                                 | -                                  |
| Assays                      | 1,711                               | -                                  |
| Field Expenditures          | 23,884                              | 500                                |
| Field Personnel             | 66,550                              | -                                  |
| Geological Consulting       | -                                   | 3,874                              |
| Geophysics                  | 111,207                             | 72,580                             |
| Mobilization                | 1,347                               | -                                  |
| Closing Balance             | 381,561                             | 176,270                            |
| <b>Total</b>                | <b>\$ 446,317</b>                   | <b>\$ 191,026</b>                  |

As at June 30, 2018, the Company held \$7,500 (December 31, 2017 - \$7,500) in deposits with a financial institution as security for reclamation requirements.

**4. RELATED PARTY TRANSACTIONS**

During the six-month period ended June 30, 2018, the Company paid or accrued \$87,388 (2017 - \$nil) included in mineral property expenditures to a company controlled by an officer of the Company included in mineral property expenditures.

Included in accounts payable and accrued liabilities at June 30, 2018 was \$42,321 (December 31, 2017 - \$6,078) payable to companies controlled by officers of the Company.

**5. SHAREHOLDERS' EQUITY**

**Authorized**

An unlimited number of common shares without par value.

**Issued share capital**

During the six-month period ended June 30, 2018, the Company:

- a) completed a non-brokered private placement, issuing 1,050,000 NFT units at a price of \$0.10 per unit for gross proceeds of \$105,000. Each NFT unit is comprised of one common share in the capital of the Company and one non-transferable share purchase warrant for a period of two years exercisable at \$0.15. In connection with this issuance, the Company paid a finder a fee of \$7,350 and issued a total of 73,500 share purchase warrants on the same terms as the warrants issued;

**TROUBADOUR RESOURCES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
(Expressed in Canadian Dollars)  
FOR THE PERIOD ENDED JUNE 30, 2018

**5. SHAREHOLDERS' EQUITY (cont'd...)**

- b) completed a non-brokered private placement, issuing 329,480 NFT units at a price of \$0.10 per unit for gross proceeds of \$32,948. Each NFT unit is comprised of one common share in the capital of the Company and one non-transferable share purchase warrant for a period of two years exercisable at \$0.15. As at December 31, 2017, \$30,068 related to the share issuance had been collected; and
- c) issued 500,000 common shares at \$0.10 per share, for a total value of \$50,000 as consideration for the Amarillo property (Note 3).

During the year ended December 31, 2017, the Company:

- a) completed a non-brokered private placement, issuing 782,600 Non-Flow Through ("NFT") units at price of \$0.10 per unit for gross proceeds of \$78,260. Each NFT unit is comprised of one common share in the capital of the Company and one non-transferable share purchase warrant for a period of two years exercisable at \$0.15.
- b) completed a non-brokered private placement, issuing 5,870,520 NFT units at a price of \$0.10 per unit and 2,250,000 Flow Through ("FT") units at a price of \$0.10 per unit for gross proceeds of \$812,052, of which \$10,000 remained receivable as at December 31, 2017. Each NFT unit is comprised of one common share in the capital of the Company and one non-transferable share purchase warrant for a period of two years exercisable at \$0.15. Each FT unit is comprised of one common share in the capital of the Company and one-half of one non-transferable share purchase warrant, with each warrant exercisable into a non-flow-through common share for a period of two years exercisable at \$0.15 per share. In connection with these issuances, the Company paid a finders fee of \$45,150 and issued a total of 451,500 share purchase warrants ("Finder's Warrants") on the same terms as the private placement warrants. There was no flow-through premium liability associated with the issuance of flow-through shares.

**Warrants**

The 73,500 Finder's Warrants issued during the period ended June 30, 2018 had a grant date fair value of \$3,170. The fair value was estimated using the Black-Scholes option pricing model using the following assumptions:

|                         | <b>June 30, 2018</b> | <b>December 31, 2017</b> |
|-------------------------|----------------------|--------------------------|
| Risk-free interest rate | 1.61%                | 1.60%                    |
| Expected volatility     | 100.00%              | 100.00%                  |
| Expected dividends      | Nil                  | Nil                      |
| Expected life           | 2.0 years            | 2.0 years                |

The following is a summary of warrants outstanding as at June 30, 2018 and December 31, 2017 and changes during the periods ended:

|                            | Number of<br>Warrants | Weighted<br>Average<br>Exercise Price |
|----------------------------|-----------------------|---------------------------------------|
| Balance, December 31, 2016 | 1,325,000             | \$ 0.12                               |
| Issued during the year     | <u>8,229,620</u>      | <u>0.15</u>                           |
| Balance, December 31, 2017 | 9,554,620             | \$ 0.15                               |
| Issued during the period   | <u>1,452,980</u>      | <u>0.15</u>                           |
| Balance, June 30, 2018     | <u>11,007,600</u>     | <u>\$ 0.15</u>                        |

**TROUBADOUR RESOURCES INC.**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
(Unaudited)  
(Expressed in Canadian Dollars)  
FOR THE PERIOD ENDED JUNE 30, 2018

**5. SHAREHOLDERS' EQUITY (cont'd...)**

**Warrants (cont'd...)**

At June 30, 2018 the following warrants were outstanding:

|                   | Number outstanding and<br>exercisable | Exercise<br>Price | Expiry Date        |
|-------------------|---------------------------------------|-------------------|--------------------|
| Warrants          | 1,325,000                             | \$ 0.12           | December 30, 2018  |
| Warrants          | 782,600                               | \$ 0.15           | September 30, 2019 |
| Warrants          | 6,995,520                             | \$ 0.15           | December 19, 2019  |
| Finder's Warrants | 451,500                               | \$ 0.15           | December 19, 2019  |
| Warrants          | 1,050,000                             | \$ 0.15           | January 23, 2020   |
| Finder's Warrants | 73,500                                | \$ 0.15           | January 23, 2020   |
| Warrants          | 329,480                               | \$ 0.15           | February 6, 2020   |
|                   | 11,007,600                            |                   |                    |

**Stock Option Plan**

On September 25, 2017, the Company adopted a stock option plan. The stock option plan provides that, subject to the requirement of the TSX Venture Exchange ("TSXV"), the aggregate number of securities reserved for issuance will be 10% of the number of common shares of the Company issued and outstanding from time to time. In addition, the number of common shares which may be reserved for issuance on a yearly basis to any one individual upon exercise of all stock options held by such individual may not exceed 5% of the issued shares calculated at the time of grant. All options granted under the stock option plan will expire not later than the date that is ten years from the date that such options are granted. The Company has not granted any stock options since incorporation.

**Escrow Agreement**

During the year ended December 31, 2017, the Company entered into an escrow agreement whereby 2,124,101 common shares are subject to an escrow agreement and may not be transferred without the consent of the Exchange. The escrow agreement provides, among other things, that 10% of such common shares will be released from escrow on the date the common shares commence trading on the Exchange and 15% of such common shares will be released every six months thereafter.

**6. SEGMENT INFORMATION**

The Company operates in one reportable operating segment, being the acquisition, exploration, and evaluation of resource properties in one geographical location, being Canada.

## 7. FINANCIAL AND CAPITAL RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of receivables, reclamation bond, and accounts payable and accrued liabilities approximates fair value due to the short term nature of the financial instruments. Cash is valued at a level 1 fair value measurement and is carried at fair value through profit or loss. Receivables, reclamation bond, and accounts payable and accrued liabilities are carried at amortized cost.

### **Risk management**

The Company is exposed to varying degrees to a variety of financial instrument related risks:

#### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's cash and reclamation bond are held at a large Canadian financial institution in interest bearing accounts. The Company has no investment in asset backed commercial paper.

The Company's receivables consist of Goods and Services Tax receivable from the government of Canada and the Company considers credit risk associated with these amounts to be low.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management as outlined below. Accounts payable and accrued liabilities are due within one year.

#### *Market risk*

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

##### a) Interest rate risk

The Company's exposure to interest rate risk arises from the interest rate impact on cash. The Company's practice has been to invest cash at floating rates of interest, in order to maintain liquidity, while achieving a satisfactory return for shareholders. There is minimal risk that the Company would recognize any loss as a result of a decrease in the fair value of any guaranteed bank investment certificates included in cash as they are generally held with large financial institutions. As at June 30, 2018, the Company is not exposed to significant interest rate risk.

**TROUBADOUR RESOURCES INC.**  
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS  
(Unaudited)  
(Expressed in Canadian Dollars)  
FOR THE PERIOD ENDED JUNE 30, 2018

---

**7. FINANCIAL AND CAPITAL RISK MANAGEMENT (cont'd...)**

*Market risk (cont'd...)*

b) Foreign currency risk

The majority of purchases are transacted in the Canadian dollar. Management believes the foreign exchange risk derived from currency conversions is not significant and therefore does not hedge its foreign exchange risk.

c) Price risk

The Company is exposed to price risk with respect to commodity prices, particularly gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue acquisition, exploration and evaluation of mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of shareholders' equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash.

The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management.

**8. COMPARATIVE INFORMATION**

Certain amounts for the year ended December 31, 2017 have been restated to confirm with the presentation and treatment as at June 30, 2018. The restatements include the reclassification of \$3,498 from receivables to prepaid expenses on the statement of financial position.